



Los Angeles • New York

## Private Equity Commitment Recommendations

Rhode Island State Investment Commission

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# Summary

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## Two private equity commitment recommendations

- A recommendation to commit up to \$50 million to EnCap Capital Energy Fund X, L.P.
- A recommendation to commit an additional \$7.5 million to Southvest VII, L.P. bringing the total commitment to \$37.5 million

# EnCap Capital Energy Fund XI, L.P.

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## Organization

EnCap Investments was formed in 1988 and is based in Houston. The founding partners worked together for more than 35 years. The firm has an investment team of 30 professionals. The senior team has an average tenure of 19 years at the firm.

EnCap has been one of longest and most successful upstream investors deploying approximately \$15 billion across 10 funds.

## Strategy

The fund follows an upstream energy strategy. The fund will make equity investments in new and established companies seeking to acquire and develop North America based, low-risk oil and gas reserves. The fund will provide growth capital to experienced management teams that have a focused business plan that is consistent with EnCap's long-term philosophy of minimizing loss of investor capital. The fund will invest in 20-25 companies.

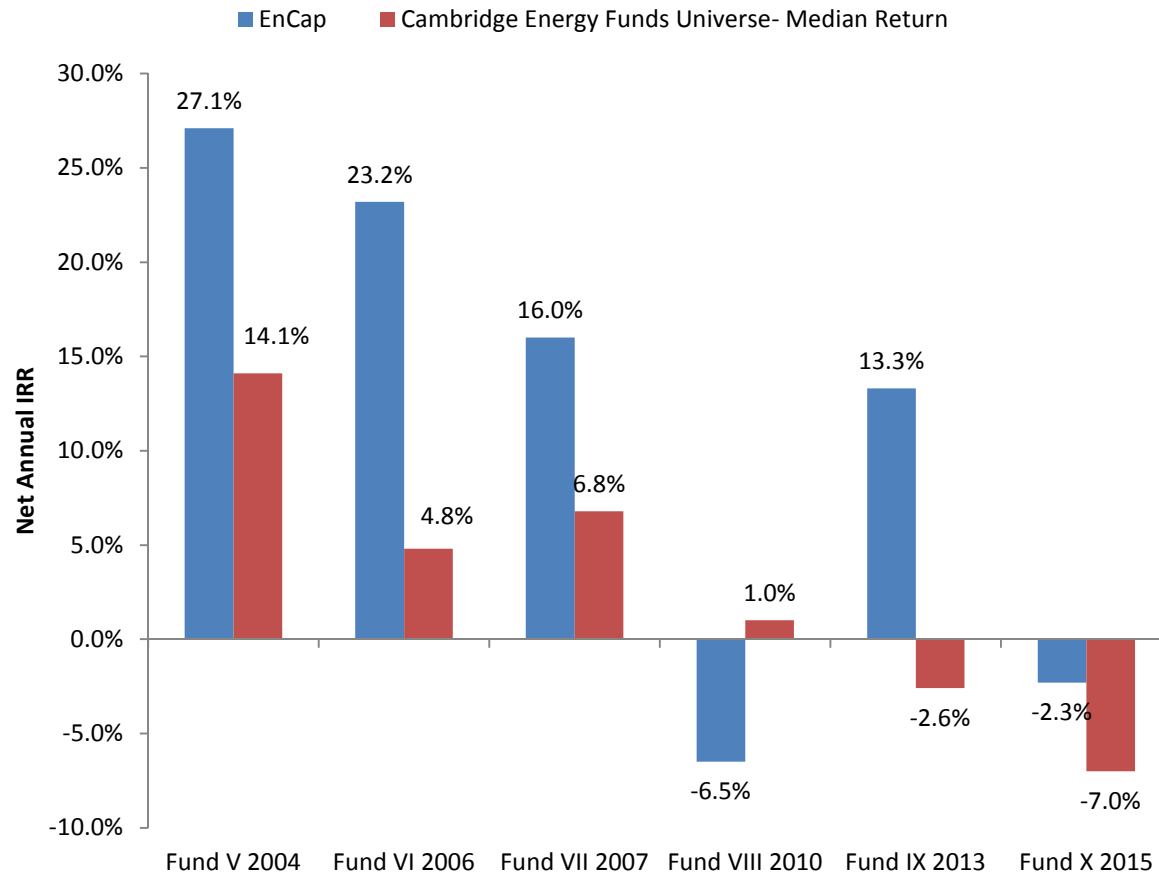
## Performance (September 30, 2016)

Based on EnCap's prior ten upstream funds, EnCap has invested \$15.0 billion, realized \$14.7 billion and created residual value of \$7.4 billion resulting in a gross IRR of 19.8%. EnCap's last 5 upstream funds (beginning in 2004) have generated a net IRR of 12.7% outperforming the Russell 3000 Energy Index by 9.7% per year.

## Terms

Fund XI will raise \$6.5 billion in commitments with a 10 year term and five year investment period. The fund charges a 1.5% management fee and a 20% carried interest with an 8% preferred return.

# EnCap Fund Returns versus Cambridge Universe of Private Energy Funds



Note: Returns are through March 2016 which is the date of most recent available universe data.

# EnCap Capital Fund IX and X Status 9/30/16

## ERSRI Investments (in \$000)

Fund	Vintage Year	Committed Capital	Invested Capital	Pct	Distributed Capital	Pct	Market Value	Annual Net IRR	TVPI
EnCap IX	2013	18,000	15,947	89%	4,130	26%	15,064	14.3%	1.20x
EnCap X	2015	25,000	6,636	27%	0	0%	6,274	-1.7%	0.95x

### *EnCap IX*

- Encap IX has committed \$5,155 million to 21 companies
- The 21 companies have drawn capital totaling \$4,567 million
- 3 companies have been realized with cost value of \$500 million and realized/residual value of \$2,102 million
- 9 of the 18 unrealized companies are valued above cost, 1 at cost, and 8 below cost
- 67% of the invested capital has been in oil related properties and 33% in natural gas

### *EnCap X*

- Encap X has committed \$4,963 million (83% of fund capital) to 18 companies
- All 18 companies have drawn capital totaling \$1,779 million
- 4 of the 18 companies are valued above cost, 13 at cost, and 1 below cost
- Half of the companies are repeat management teams

## Recommendation on EnCap Capital Energy Fund XI, L.P.

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Recommend up to \$50 million commitment to EnCap Capital Energy Fund XI

- Part of ERSRI capital budget of \$155 of commitments in 2016
- Maintains an allocation to private equity investments in the energy sector at approximately 6%, comparable to the sector exposure of the MSCI ACWI Index
- EnCap is one of the most experienced private equity investors in the energy sector investing in 242 companies over 29 years across multiple price cycles for energy
- The firm has utilized a consistent investment strategy across 10 funds
- The firm has a large and stable investment team
- Across ten funds, EnCap has invested \$15.0 billion, realized \$14.7 billion and created residual value of \$7.4 billion resulting in a gross IRR of 19.8%
- EnCap maintains an Environmental, Social and Governance Policy and provides a report each quarter on the adherence to the policy

# Southvest VII, L.P.

## Organization

Gen Cap America (general partner) was founded in 1988. Gen Cap has an investment team of eight professionals, including five managing directors, an operating partner, a principal and an associate. The Firm operates out of a single office in Nashville, Tennessee. The firm is led by five partners and has minimal turnover since inception.

## Strategy

The fund will acquire a majority interest in small companies with mature businesses with consistent earnings, strong cash flow generation and existing management teams. Target companies are expected to have revenue between \$5 million and \$100 million and enterprise values of \$10 million to \$30 million. Gen Cap is distinguished from other small buyout managers in both its approach to deal structuring as well as its geographic focus (southern US). Gen Cap is unique in deal structuring by providing both the sub debt and equity to portfolio companies. This helps lower overall financing risk, accelerates cash flow to the Fund and can improve the overall IRR.

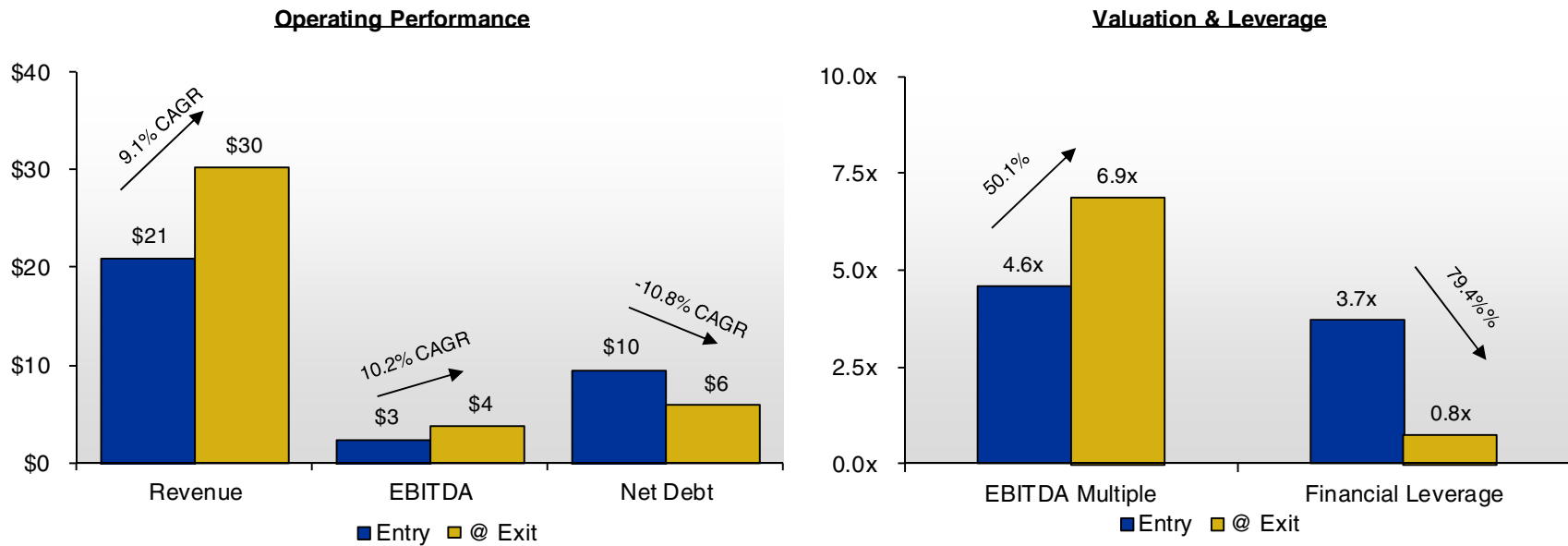
## Performance

Gen Cap's prior two institutional funds have generated a net IRR of 16.5% since 2005. Investing in Russell 2000 Index during the same period would have generated a return of 7.8%. Gen Cap has outperformed the Index by 7.6%.

**Terms** Fund VII will raise \$250 million in commitments with a 10 year term and five year investment period. The fund charged a 2% management fee and a 20% carried interest with an 8% preferred return.

# Gen Cap's Value Creation

## Realized Portfolio Operating Performance of Fund V and Fund VI



Note: Figures represent weighted averages.

Gen Cap has demonstrated an ability to add value by acquiring companies at low multiples and growing both revenues and earnings



# Southvest Fund VII Status 9/30/16

## ERSRI Investments (in \$000)

Fund	Vintage Year	Committed Capital	Invested Capital	Pct	Distributed Capital	Pct	Market Value	Annual Net IRR	TVPI
Southvest VII	2016	30,000	691	2%	0	0%	691	NA	NA

### *Southvest Fund VII*

- Southvest VII began operations in May of 2016
- The fund completed its first investment in October with the acquisition of a consumer products company for 6.2x EBITDA

## Recommendation on Southvest Fund VII, L.P.

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Recommend an additional commitment of \$7.5 million bringing ERSRI's total commitment to Southvest Fund VII to \$37.5 million.

- SIC approved a \$30 million commitment to Southvest Fund VII in March 2016
- As Southvest reaches its final close, an additional commitment amount is available
- A larger commitment is recommended reflecting ERSRI's new and larger allocation to private equity
- The merits of Southvest Fund VII continue to be:
  - Part of ERSRI capital budget of \$155 of commitments in 2016
  - Gen Cap targets small companies with revenues between \$10 million and \$100 million. This is a less competitive sector of the US buyout market
  - Gen Cap has a proactive sourcing strategy and competes in a less competitive region, the southern US
  - The firm has a stable and experienced investment team
  - The firm's prior two institutional funds have generated a net IRR of 16.5% since 2005. Investing in Russell 2000 Index during the same period would have generated a return of 7.8%. Gen Cap has outperformed the index by 7.6%.

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